

What is “Front Loading” or “Inventory-Loading?”

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Front loading is when a MLM company requires a consultant to purchase an unreasonable amount of inventory that cannot realistically be resold and/or used within a reasonable amount of time.

Apart from general pyramiding accusations, the direct selling industry can learn from the Federal Trade Commission’s (FTC) [specific allegations of improper activity](#). The FTC includes front loading as inappropriate activity stating:

Front-loading or inventorying of product in which excessive product purchases are viewed as prohibited consideration for the requirement that individuals make an initial investment of product purchased to engage in the opportunity.

In the August 1999 case [FTC v. Equinox](#) the FTC accused the company of making recruits engage in the following inappropriate front loading activity:

New recruits were front-loaded with \$5,000 inventory purchases by being encouraged to “buy-in” at the managerial level.

MLM marketing plans which result in inventory loading distributors should be taken very seriously and avoided. Here are five ways to tell if the direct selling company you are considering joining is reputable or perhaps may be operating as a pyramid scheme:

- **Promotions where the business opportunity is the “product.”** If there is no legitimate product or service being sold, but only the opportunity itself, then chances are that the promotion is a pyramid scheme.
- **Products that are sold at inflated prices.** Sometimes pyramid promoters try to mask their true intent by selling a product. Often, the product will be vastly overpriced and thus unlikely to generate much retail activity, thereby indicating that the real item being sold is the compensation plan.
- **Programs that require inventory “loading.”** A legitimate MLM opportunity doesn’t require you to buy unreasonable amounts of inventory to begin your business.
- **Programs that require substantial initial cash investments.** According to MLM Attorney Jeff Babener, many states consider a required up-front investment of \$500 or more to be “substantial” and thus likely to attract the attention of law enforcement.
- **Programs that require mandatory purchase of peripheral or accessory products or services.** Some pyramids seek to hide their true face by allowing a minimum price for a “start-up” kit and then compelling the investor to buy more expensive items such as

training or demonstration materials. Jeff Babener believes that business-start-up kits and selling aids should be sold at company cost.

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Jeffrey Babener
On Assignment

On any given day you can catch [Jeffrey Babener](#) lecturing on Network Marketing at the University of Texas or the University of Illinois, addressing thousands of distributors in Los Angeles, Bangkok, Tokyo and Russia, or writing a new book on Network Marketing, an article for Entrepreneur Magazine or a chapter for a University textbook. Over two decades he has served as marketing and legal advisor to some of the world's largest direct selling companies, the likes of Avon, Nikken, Melaleuca, Discovery Toys, NuSkin, and he has provided counsel to the most successful telecom network marketing companies...Excel, ACN, World Connect, ITI, AOL Select and Network 2000. An active spokesperson for the industry, he has assisted in new legislation and served on the Lawyer's Council, Government Relations Committee and

Internet Task Force of the Direct Selling Association (DSA) as well as serving as General Counsel for the Multilevel Marketing International Association. He is an MLM attorney supplier member of the DSA and has served as legal counsel and MLM consultant on MLM law issues for many DSA companies.

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